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Tourism Forecasting Performance – Considering the Instability of Demand Elasticities

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Abstract

This study highlights that accounting for the fact that tourism elasticities do not remain stable is crucial for forecasting situations subject to major economic fluctuations and changes in the macro-economic framework conditions. Therefore, approaches with constant elasticity assumptions might lead to substantial forecasting failures. In cases where the business cycle follows distinct upward or downward-directed trends, we have to take into account that different price and income effects are to be expected. The main reasons why income elasticity may vary across the business cycle include loss aversion, liquidity constraints, and precautionary saving. With the help of the time-varying parameter approach, it has been possible to be demonstrate that elasticities may vary due to gradual changes in consumer behavior and/or policy regime shifts. Income elasticities may also change in the medium term from growth period to growth period in line with the ongoing saturation process and the prevailing macro-economic framework conditions.

Keywords: income elasticities, cyclical fluctuations, gradual changes, forecasting performance.